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UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Crop Insurance Corporation
Washington 25, D. C.

October 28, 1946

To: State People Who Made Recommendations on Cotton Insurance Program

From: G. F. Geissler, Manager

Subject: Cotton Crop Insurance Regulations for 1947 and Succeeding Years

This concerns suggestions relative to the 1947 cotton insurance regulations which were submitted in response to our memorandum of July 3, 1946. The suggestions received indicated that the proposed regulations were given a rather thorough study among various groups in each state and with the exception of three states the general plan of the cotton insurance program was favorably received.

The regulations have been approved and distributed to state offices. In formulating these regulations your suggestions and recommendations were carefully considered in this office with a view towards shaping a cotton insurance program that will best meet the needs of cotton producers and at the same time represent a sound basis of operation for the Corporation. Naturally, it has been impossible to adopt all suggestions that were offered since many of them were conflicting and others were designed to meet a particular need in a state or smaller area.

There is included as a part of this letter a summary of the principal recommendations received by this office together with the reasoning or thinking of the Corporation concerning such suggestions and the various sections of the regulations to which they pertain. It is hoped that through this medium we can (a) acquaint each state and branch office with the thinking of other groups as it relates to the cotton insurance program, (b) indicate the wide variation that exists among the suggestions from the states concerned, and (c) contribute indirectly to the job of selling insurance through a better general understanding of the cotton crop insurance program.

STATE RECOMMENDATIONS AND DISCUSSIONS

419.1 (a) Cottonseed insurance: Three states recommended that insurance covering the loss of cottonseed production be offered under all levels.

This change has been adopted and incorporated in the 1947 regulations.

419.1 (b) One state recommended that in parishes or counties which do not meet the minimum participation requirements, those applications which are filed be held until the following year and that applicants be informed that their applications would be approved for subsequent years if a sufficient number were received to qualify the parish.

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We believe that little advantage could result from this plan of handling applications in counties which do not meet the minimum participation requirement. There is a question as to whether the position of the Corporation would be legally safe in holding an application and accepting it in subsequent years. An offer made to the Corporation by an application for insurance in 1947 does not constitute a continuing offer which may be rejected for the year it was made and accepted for some later year.

419.4 (c) One state recommended that contracts be held in active status for three years instead of two years before termination due to failure to plant cotton on the farm.

It is felt that two years is the optimum time to continue a contract in force for a producer who plants no cotton and that it is not imposing any unusual hardship to require that he indicate at the beginning of the third year his continued interest in crop insurance by filing a new application if he intends to plant a crop. Further, such a practice of holding contracts in active status would involve the additional administrative costs of obtaining an acreage report the third year even though it may be quite probable that the insured did not plant cotton in the county.

419.6 (a) Acreage report: Arizona recommended that insured producers be required to file a report prior to planting showing the legal description of the land and estimated acreage to be planted. They indicated that this report would take the place of the acreage report now required and expressed their belief that this practice would tend to avoid cases of error in which farmers report planted acreage on land not under a worksheet and for which a yield may not have been established.

The idea of obtaining the acreage figure before planting has certain merits. It is being experimented with by the Corporation in the case of certain tobacco insurance counties and in corn counties. In addition to the advantages pointed out by Arizona with respect to having advance information useful in avoiding errors, the plan also has advantages in eliminating selectivity that sometimes results from late acreage reports. On the other hand, there are certain handicaps to submitting acreage figures before planting. A large part of the farmers cannot state in advance how much acreage will be planted and as a consequence, provision must be made for revision of such figures submitted before planting. Also the earlier the closing date the more revision will probably be necessary.

In four tobacco counties the acreage report is being obtained by the salesman at the time he takes the application and is subject to revision by the insured up to a specified date. In the case of corn insurance counties the insured applies annually for the number of acres of insurance that he desires. If he does not plant as many acres as that on which insurance was applied for, the figure may be revised downward. Through applying for insurance on a smaller acreage than he anticipates planting he can obtain partial insurance protection. In the event of a loss if the acreage actually planted is in excess of the acreage insured, the indemnity is determined essentially by the same method of apportionment as is used in cotton.

In view of the above and since the cotton insurance contract is continuous rather than on an annual basis it appears advisable to observe further the operation of the preplanting report idea under the trial program before its general adoption. Present plans indicate that a preliminary inspection will be made under the 1947 cotton insurance program and it would seem advantageous to obtain the acreage report at that time.

419.6 (b) Limitation of Insured Acreage: Texas (PMA Fieldmen) recommended that a provision for limiting the insured acreage to 60 percent of the cropland be included for application to the entire State of Texas. New Mexico favored a somewhat similar plan whereby the insured acreage in the entire Plains Area with the exception of an irrigated valley in one county would be limited to 60 percent of the cropland.

While a plan of limiting the insured acreage to a specified percentage would offer certain advantages in offsetting the selectivity which appears greatest during those years when the moisture available at planting time is so small or any other hazard is so obvious that a loss on a crop can be predicted by a producer, there are at the same time certain facts which indicate that such a provision would not operate to the best advantage of all concerned. Such a plan would entail some program of acreage determination with respect to cropland as well as accurate measurement of the planted cotton acreage. These would undoubtedly serve to increase the cost of administration of the program and at best would only partially solve the problems peculiar to these areas. It is felt that the earlier closing dates established for the Plains Area will tend to reduce considerably the selectivity in farms insured. Also, under the 1947 program the lower coverages applicable to the earlier stages of production should offset any tendency of farmers to plant an acreage greatly in excess of their normal acreage with the hope of collecting an indemnity. Further, the 1947 regulations include certain provisions under the section "Causes of Loss not Insured Against," which will, when applied, serve to restrict the insured acreage in years in which the moisture available is so small at planting time as to indicate the production of less than a normal crop. In this connection particular attention is invited to subparagraphs 419.10 (h) and (i) of the 1947 regulations.

419.8 Coverage groups and stages of production: Two states recommended that the number of coverage groups be increased and that the range of such groups be decreased. This recommendation was based on the feeling that since the amount of insurance shown in the table is computed for a yield at the lower limit of each coverage group range, an injustice will result to a producer whose farm average yield is at or near the top of such range. They point out by appropriate examples how a producer with a yield at the upper limit of a coverage group range will have the same amount of insurance as producers with the lowest yield in the coverage group range. It was also suggested that computations of amounts of coverage be based on the mid-point of the coverage groups.

One state, however, recommended that the range of coverage groups be increased and that the number of such groups be reduced.

The Corporation recognizes the fact that in any system of grouping farms with different average yields and establishing one rate and one amount of insurance for all farms in a group, there will result what may appear to be injustice to those farms with the highest average yields in a group. However, there are several factors to be considered which tend to justify such a procedure. First, one of the principal differences in the 1947 regulations from previous programs is the placing of less emphasis on average yields. It is true that average yields are the basis of placing farms in coverage groups but beyond that point the emphasis is on the amount of insurance which may be had at the established rate. At this stage each producer within a coverage group is purchasing the same amount of protection for the same price. Secondly, since the yields established for farms are admittedly not such that they can be taken as actual records, except in a few cases, the apparent injustice to producers with average yields near the top of the range of the coverage group is in most cases questionable. Also, when we consider the fact that the real use of average yields is to express the best prediction of what we could normally expect the farm to produce during the next year, the relatively small variation in each coverage group represents a probable error in prediction that is not excessive. Likewise, the rates established for counties are known not to represent the absolute loss experience which, as in the case of average yields established for farms, would seem to justify grouping of farms which fall within a reasonable yield range.

The Federal Crop Insurance Act provides a limit on insurance to 75 percent of the average yield. The adoption of the suggestion that the amount of coverage under the various stages of production be computed on the basis of the mid-point of the coverage group would mean that in Level C those farms in the lower half of the coverage group would be insured for an amount greater than 75 percent of the average yield established.

Texas recommended that the third stage of production be eliminated for the entire Cotton Belt. For west Texas counties they proposed that a special program be approved based on production intervals or stages by dates. Under this program coverage groups consisting of yield ranges would be retained and the maximum amount of coverage in each group would be that established on the schedule for the fourth stage. Levels A, B, and C would be offered. Under this plan, however, appraisals would be made depending on the date the crop was destroyed or substantially destroyed as determined by the Corporation. Intervals would be established consisting of ten-day periods, appraisals decreasing with each later interval. These suggested periods together with the percent appraisals are as follows:

<u>Production Period</u>	<u>Appraisals</u>
June 21 - June 30	75 percent
July 1 - July 10	65 percent
July 11 - July 20	55 percent
July 21 - July 30	45 percent
July 31 - August 9	35 percent
August 10 - harvest	25 percent
After harvest	0 percent

It was pointed out that under this plan of insurance the adjusters would not have to determine whether the cotton had been cultivated before it was destroyed or whether it has been laid by.

The Corporation is reluctant to set up special programs for any section until it is definitely proved that a general program cannot be made to work with reasonable success. We believe that changes which have been made in the program will minimize the difficulties presented by such areas.

Chopping as break between first and second stage: Ten states representing all sections of the cotton producing area recommended the adoption of "chopping" instead of "first cultivation" as the breaking point between the first and second stages of production.

This suggestion has considerable merit and has been considered at length in the Corporation. It is recognized that the chopping operation constitutes a definite and major step in the cultivation of cotton in some sections. However, it is equally true that in other sections of the cotton producing area, the practice of chopping is not followed and that drop planting and cross cultivation have taken the place of this step. It is also true that farming practices are changing noticeably in favor of the above alternative measures in states where chopping has long been practiced. Thus to adopt chopping as the break between the first and second stage of production would create problems in loss adjustment in those sections where this practice is not common and gives rise to an increasing problem in sections that are now adopting alternative practices. On the other hand, there is in every section a first cultivation. Naturally, the type of cultivation varies and a problem is encountered in determining when it has been performed. It is felt within the Corporation that using the first cultivation as the break between the two stages will present the smaller problem. A clarification of the term "first cultivation" which recognizes the different interpretation is included in the regulations and should be of some assistance in adjusting losses that involve this question.

Alabama proposed that the first two stages of production be combined with the result that the first stage would then be "acreage destroyed before laying by." This, it was stated, would remove any incentive for a producer to cultivate cotton that was substantially destroyed in an attempt to collect a larger indemnity after first cultivation. It was further recommended by Alabama that if the first and second stages were not combined the percent of coverage proposed for the first stage should be increased by at least 25 percent since producers in that section normally incur approximately 50 percent of the cost of producing a crop when planting it.

New Mexico shared the feeling of Alabama regarding stages of production and increase in the amount of coverage in the early stages. However, the recommended increase in the amount of coverage for the combined first and second stages was smaller than recommended by Alabama. It was pointed out by New Mexico that if the second stage were eliminated and the coverage remained at the level proposed for the first stage it would be difficult to sell the insurance; the producer would be forced to carry a crop until after laying by to get a higher coverage thereby sacrificing the opportunity to use the land for another crop.

Mississippi recommended that in each of the levels of insurance the amount of coverage be increased in the earlier production stages. The recommended coverage expressed in terms of percent of the average yield were: Level A, 10%, 25%, 35%, and 40% for the first, second, third and fourth stages respectively; Level B, 15%, 25%, 45%, 65%; and Level C, 20%, 50%, 65%, and 75%.

It is agreed within the Corporation that in any discussion or consideration of stages of production and the amount of insurance to be offered in such stages, advantages are recognizable in breakdowns other than the one now set forth in the regulations. However, the final answer must be the plan that best fits the cotton producing area as a whole. It would seem inadvisable to set up one stage of production which extends until after laying the crop by, since during that time the greater part of the cost of production has been incurred. Acreage that may be released before cultivation has actually started should carry a smaller amount of insurance than that on which the crop is carried to the last cultivation, which is the thought back of the plan of four stages as embodied in the 1947 regulations. Further, the fact that acreage on which the crop is destroyed before any cultivation is carried out may be put to other uses seems to justify a smaller amount of insurance. This leads into the proposal of some states that we increase the amount of coverage for the first and second stages. Here again we are governed by the necessity of adopting an amount of coverage that is the best possible answer to the needs of the entire cotton area and at the same time represents sound basis of operation for the Corporation. Naturally, in some sections the cost of planting a cotton crop constitutes one of the most costly operations and a higher amount of insurance seems justified; however, in other sections the reverse is true. The coverage provided in the first and second stages as well as the third and fourth represents what we believe is a fair average for all sections.

Automatic transfer of 1946 contracts to 1947 contracts: Two states recommended that in those cases where a producer insured in 1946 does not file a 1947 application, the 1946 application should be cancelled to avoid ill-feeling of producers and to avoid misunderstanding as to whether insurance is actually in force for the 1947 crop year. Another state favored a plan of cancelling all 1946 contracts.

While we appreciate the view points of these states in desiring to avoid misunderstanding and ill-feeling, one of the main advantages of a continuous contract is to avoid the writing of all business each year. The transferring of 50 and 75 percent 1946 contracts to 1947 contracts based on Levels A and B, respectively, will result in essentially the same maximum protection for producers on harvested acreage at approximately the same premium costs. In the procedure for handling 1947 applications particular emphasis has been placed on personally contacting each producer insured in 1946, fully explaining the 1947 program and urging him to file a new application. This explanation would also include the conditions under which the Corporation will automatically transfer the contract. In cases where a producer files a new application he has the same options regarding levels of insurance and cottonseed insurance as any other producer. If after the explanation, the 1946 insured producer does not file a new application and does not exercise his right to cancel

his contract, it does not appear that any injustice or serious criticism can result from action taken by the Corporation to continue his insurance contract under the 1947 program. This position is further supported by the fact that the continuing features of the contract which were a part of the agreement entered into by the insured and the Corporation provided for acceptance by the insured of changes in premium rates or insurance coverages in case where he does not exercise his option to cancel the contract.

Partial insurance protection: One state recommended that provisions for partial insurance protection be retained for 1947 and indicated that in that state there is a growing need for a plan whereby a producer may insure for an amount that is relatively small yet covers generally the amount advanced the producer by lending agencies. It was also pointed out that insurance which provides high coverage offers an incentive to producers to plow up their crop when partially destroyed, receive an indemnity and put the land to other uses.

On a nationwide basis the interest in partial insurance protection on cotton has been relatively small. Under the 1946 program there were only 523 cotton contracts, or .4 percent of the total contracts for all states, that were written on the basis of partial insurance. The plan of insurance for 1947, which offers a choice of three levels at which a producer may insure will, to a certain extent, meet the expressed need for a small amount of insurance on individual farms. Further, the adoption of four production stages for use in adjusting losses and the progressive amounts of coverage under these stages will tend to discourage producers in their desire to obtain a release on acreage on which the crop is partially destroyed in the early stages and receive an indemnity. These facts and considerations formed the basis for the omission of partial insurance provisions from the 1947 regulations.

Reduced Premium provisions: Four states were of the opinion that the reduced premium provision offered a strong sales point and should be retained in 1947.

This provision was omitted from the 1947 regulations for several reasons. As included in the 1946 program this feature required a considerable amount of record keeping which, when viewed in the light of the experience of the Corporation in paying losses, would not appear to be justified by the small number of producers eligible for the reduction. Also, there would seem some question whether this plan is sound financially in those areas where loss experience has been great. In those sections where the loss record on farms has been favorable, the rates are relatively low and the reduction in premium cost to the insured would be small as compared to the additional cost of administration.

Closing dates: 419.42 Twelve states recommended later closing dates than those proposed by the Corporation. Many of these states expressed a belief that an advance in closing dates for filing applications would result in a decrease in participation. One state, however, recommended that the dates be advanced for the 1947 program.

In formulating the 1947 cotton crop insurance regulations an effort was made to establish closing dates for filing applications which are early enough to avoid, insofar as possible, the selectivity which has characterized the Corporation's insurance business in previous years. It is apparent that in some sections of the cotton area weather conditions at or near planting time give some indications of the probability of producing a normal crop and often cotton producers base their interest in crop insurance on such indications. This can have a serious effect on the loss experience of the Corporation. Also since an insured producer may cancel his contract any time up to the closing date it would be possible under dates which are at or near planting time to cancel a contract or leave it in force depending on the unfavorable or favorable prospects at the later date. In order to reduce to the minimum this selectivity it was felt that the closing dates for accepting applications under the 1947 cotton insurance program (as well as flax and spring wheat) should be generally advanced.

It is appreciated that in the past closing dates have influenced to some extent the amount of insurance written in a county. However, it appears that under the 1947 program we have the advantages of an earlier start in the sales campaign, and another year of experience in presenting the program. In addition, the unfavorable weather conditions that have prevailed generally throughout the cotton area in 1946 should afford additional stimulus for the sale of cotton insurance. Further, the ultimate goal of the Corporation is a sales campaign which extends throughout the entire year and we believe that what appears to be a disadvantage from an earlier closing date will be overcome in part by that plan. There is also a feeling in some quarters that farmers are not more interested in cotton crop insurance at planting time and that they are naturally optimistic as planting time draws near and are thus less inclined to buy insurance.